

## AGENDA



Thursday, February 12, 2009

**Austin Energy  
RECOMMENDATION FOR COUNCIL ACTION****Item No. 3**

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**Subject:** Authorize the City Manager to issue notice declining participation in the proposed project to license, construct, and operate additional reactor units at the South Texas Project.

**For More Information:** Roger Duncan, General Manager, 322-6157.

**Boards and Commission Action:** Recommended by the Electric Utility Commission.

**Prior Council Action:** February 17, 2008 - Approved resolution declining participation in response to a previous proposal to expand the South Texas Project.

December 18, 2008 - Approved contract with WorleyParsons Group for the evaluation of the proposed expansion project.

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The City of Austin currently owns a 16% share of the South Texas Project ("STP"), a 2700 megawatt nuclear power plant comprising two reactor units in Matagorda County, Texas. The other owners of STP are the City of San Antonio's gas and electric utility, CPS Energy, and NRG Energy, Inc. Under the participation agreement that governs the ownership and operation of STP, any owner may issue notice proposing the construction of additional reactor units at the site. Participation by at least 50% of the total plant ownership is required to proceed with any expansion project. All owners have the right to opt to participate, and also to decline to do so.

On November 13, 2008, NRG issued a letter proposing to license, construct, and operate two additional reactor units at STP. Austin has three months—until February 13, 2009—within which to reply with an affirmative response if it wishes to participate in the expansion project. For the reasons stated below, Austin Energy does not believe that it is in the City's best interest to participate in the project as it is currently proposed, and it recommends that City Council not authorize an affirmative response.

Pursuant to Council approval, Austin Energy retained the services of WorleyParsons to evaluate the NRG proposal. WorleyParsons has extensive experience in the nuclear industry and is strongly supportive of the resurgence of nuclear energy in the United States. It is further supportive of the overall proposal to expand STP and has concluded that the proposed expansion project is financially viable as a whole. It is the conclusion of both WorleyParsons and Austin Energy, however, that it would not be well advised for Austin Energy to opt to participate in this particular project.

The analysis indicates that investment in the proposed project will result in the need for significant cash outlays by the City totaling perhaps higher than \$2 billion over at least the next seven years, before any power comes online and cost-recovery begins. This will call for the issuance of significant debt relative to Austin Energy's size and could likely result in a downgrade of its credit rating, leading to higher future borrowing costs. Further, the addition of an additional 432 megawatts of baseload nuclear within this time

frame is not consistent with the utility's forecast generation needs and may well result in the displacement of wind and other renewable power at certain times.

While the analysis indicates reasonable scenarios showing a positive net present value of this project to the City, there is also a significant risk that unknown variables—such as construction costs, schedule delays, and future fuel and energy prices—could lead to a negative net present value and financial loss to the utility and its ratepayers. While this level of risk might be acceptable to a majority owner having control of the project, Austin Energy does not believe it is tolerable for a minority owner with little or no control of the project or its outcome. Given this, the analysis leads to the conclusion that the potential positive rate of return resulting from a positive outcome is not sufficiently high for a project of this risk magnitude.

In light of the foregoing, Austin Energy recommends that Council authorize the issuance of a notice to NRG that it is declining to participate in the expansion project as it is currently proposed.